REPORT FROM THE

MINISTERIAL COMMITTEE ON FORESTRY

TO THE EXECUTIVE COUNCIL

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1.0 INTRODUCTION

The forest industry is in serious trouble, this impacts directly on the New Brunswick industry. Few, if any N.B. pulp and paper mills will report a profit in 1991. One mill (Atholville), has already permanently shut down while others have been and will continue to take extended shutdowns to reduce inventories and await price increases.

One should, however, realize that this is not the first time that this industry has been in trouble nor is it the first time that government has reviewed the sector. Although the forest products industry is one of the world's largest manufacturing sectors, their operations and profits are very cyclical. It takes from six to eight years to go from a low to a high but takes only one and one-half to two years to go from a high to a low. The return for the current downturn is anticipated to be very sluggish and not expected to improve before late 1992.

Other than newsprint, the more consumer-oriented products or the more technological is the manufacturing process, the less sensitive the products will be to the extremes of cycling. These products also tend to generate a higher level of return; 10.2% on average versus an average of 6.8% for the market pulp commodities.

In 1990, Canadian shipments of forest products totalled $38 billion (down 8% from 1989 levels), of which $21.5 billion were exported. In 1990 New Brunswick exported $1.4 billion of forest products, representing 46% of all New Brunswick exports. In a world context this represents a mere 1% of the market.

New Brunswick employs 5600 people in the pulp and paper industry, plus 3500 in saw milling operations and over 5000 in related harvesting and transportation activities. In New Brunswick the forest industry is a big industry and is very important to the overall provincial economy.

The Canadian forest industry as a whole faces numerous problems: competition in an ever broadening global market place; weak newsprint consumption; recycling, taxes, input cost and economies of scale.

Although the picture is gloomy, the long term outlook for the pulp and paper industry appears good. The demand for printing and writing paper, coated paper and advertising stock is expected to grow at a rapid pace. Linerboards, particularly the newer bleached grades, including white tops and similar grades which are targeted to higher value packaging markets, are also likely to be a growth area. Tissue papers are also expected to increase in demand, even if only modestly. Over-capacity in the newsprint industry is expected to persist until the mid-nineties and then the demand should grow moderately. However, corrugating medium and unbleached linerboards are not expected to show much growth. In market pulps, the demand for unbleached softwood kraft is expected to decline. Moreover the existing market for bleached softwood kraft market pulp in the United States may be negatively affected by the increased use of recycled fibre.

A number of N.B. sawmills are currently shut down. Some of these shutdowns are normal, seasonal closures while others are an attempt to reduce inventories while waiting for return of better prices. With the U.S. presidential election scheduled for the fall of 1992 and the U.S. capping of federal timber sales in Oregon and Washington to protect the northern spotted owl, the outlook for the American market looks positive for late 1992.

2.0 CURRENT WORLD WIDE PAPER AND FOREST PRODUCTS ENVIRONMENT

The late 1980's were very prosperous for the industry; however, the situation has changed and difficult times will be faced by paper and forest product companies throughout the early 1990's.

Demand and price declines, over capacity and a slow economy have reduced revenues and cash flows for the majority of pulp and paper companies world wide.

The current down cycle has severely impacted the financial performance of the industry as a whole. Additionally, the current high leverage being carried by many international producers as a result of acquisitions and recent capacity expansions, is further pressuring earnings and reinvestment in the short term.

At the current low level of prices, inefficient capacity may be driven from the marketplace or be repositioned to a niche market. Already, production levels have been cut back, minor shutdowns are occurring, and marginal mills here in Canada are beginning to shut down. Best estimates indicate another year of suffering before demand improves enough to have any significant positive effects on cash flows.

Unfortunately for Canada during this current down cycle, the U.S. sector has performed the strongest due to:

- its relatively low cost position
- the increasing inroads the U.S. companies have made in foreign markets via acquisitions and mergers.

The weak Canadian performance was due mainly to:

- the high Canadian dollar
- highly leveraged operations
- high dependence on two commodity products, market pulp and newsprint
- high operation costs.

2.1 Current Trends

2.1.1 Increased Globalization

The pulp and paper industry is becoming more globalized with world markets being served from both local and offshore bases. Most producers are becoming global by acquisition rather than by building new facilities. As companies become larger, they will realize more benefits from larger economies of scale and improved efficiency and be further insulated from current short-term swings in profitability. This consolidation of the industry will continue as companies strive to gain market share.

2.1.2 Increased Mergers and Acquisition Activity

Mergers and acquisition activity is presently down due to the high degree of leverage many major producers now find themselves in, and the current cash flow situation. As the cash flow situation improves, this activity will become more aggressive since the marketplace of the 1990's will favour large, low-cost, geographically diversified (but product-focused), well-capitalized producers.

2.1.3 Joint Venture Transactions

Strategic partnerships will be emphasized over the acquisition route for a number of reasons:

- to strengthen selected business segments;
- to improve fundamental operations of under performing assets;
- to reach markets not previously entered with less overall risk;
- to test foreign markets with the insight of a native competitor;

Joint ventures also enable purchasers to stretch their resources and share both risks and gains.

2.2 Currencies

Since 1986, the Canadian dollar has appreciated approximately 20% versus the currency of the most important competitor, the United States.

3.0 CURRENT CANADIAN PAPER AND FOREST PRODUCTS ENVIRONMENT

Canadian paper and forest products companies are experiencing poor financial returns.

Adam Zimmerman, Chairman of Noranda Forest Products Inc., is predicting that in 1991, the Canadian industry will lose close to $2 billion dollars.

Canada's position as a high cost producer has been further emphasized during the current recession:

- small size and relative age of machines
- high fibre costs
- strong Canadian dollar
- high cost of financing
- high labour costs, somewhat less flexible work rules

Canadian mills continue to depend highly on commodity products such as pulp and newsprint.

The Montreal consulting firm of H.A. Simons estimates that there currently exists an annual overproduction capacity in the Canadian pulp and paper industry of one million tonnes.

Companies have focused attempts to improve cash flows on the sale of equity. Over $600 million in common equity (representing over 12% of all equity raised by Canadian companies) was raised by forest products companies in 1991. This is very significant in that the forest products industry represents only 2.5% of the TSE 300.

These offerings have provided funding to cover interest expenses and finance required capital expenditures over the short and intermediate term. As previously stated, the acquisition market is currently down and the increased activity in the equity market appears to support this phenomena.

Investor confidence in the sector is still high since:

- as a cyclical industry, it is anticipated that profitability will return, and
- post adjustment to free trade, the forest products sector will remain a key component of the Canadian economy.

These equity offerings also reflect a willingness on the part of several controlling shareholders to tolerate some dilution of their holdings.

The Canadian industry has two primary options for the future:

I. Reposition existing smaller and older mills into specialized niche products, for which demand tends to be more price insensitive.

II. Upgrade production to more value added products such as coated paper where the high cost of fibre is less of a factor. This would take advantage of the high quality Canadian fibre. Elimination of US tariffs on the importation of this product gives Canada a comparative advantage in coated paper.

4.0 OVERVIEW OF NEW BRUNSWICK FOREST PRODUCTS INDUSTRIES

4.1 Pulp and Paper

New Brunswick has ten major pulp and paper operations, one research and development operation and one tissue plant employing a total 5600 people.

Product	Aggregate Daily Capacity (tonnes)	%
Market Pulp	3600	47.7
Newsprint	1890	25.1
Coated Paper	910	12.1
Corrugating Medium and Bleached Board	940	12.4
Tissue	200	2.7
Total	7540	100.0

Pulp and newsprint commodities are very sensitive to the world pulp and paper market cycle.

Some of New Brunswick's pulp and paper mills are older and small in production with a number of inherent inefficiencies. They all have high fibre costs compared not only to the Southern United States but especially to new plants coming on stream in Chile and Brazil.

The current high Canadian dollar severely hurts the whole industry. Mills must concentrate more on value-added products like Repap has and/or niche markets for speciality products. The industry realizes that they must address and solve their high man- hours per tonne output; e.g. the Irving organization has already started this process with Irving Paper. Most Eastern Canadian mills have man-hours per tonne in excess of 4 compared to rates of less than 2 man-hours per tonne at the new and large modern mills in the souther U.S.

4.2 Sawmills

A Department of Economic Development & Tourism directory of the primary wood industry lists 123 sawmills operations employing 3500 people.

Total annual production for 1990 was over 750 million fbm, of which 80% was produced by 25% of the sawmills. It should also be noted that 40- 45% of all sawmill production is provided by Irving sawmills.

Due to the state of the economy, sawmills have been reluctant to utilize Federal/Provincial money to increase the value of their productions. A recent agreement to help the industry with dry kilns left substantial money on the table. The larger mills have, however, managed to become very efficient. As long as the sawmillers continue to produce "commodity" products, they will be subject to the swings of the marketplace.

Sawmills understand that any modifications to the current royalty structure will have to be approached with caution if they are to avoid retaliation measures by the United States where they ship the majority of their product. The ongoing countervailing duty case exempts New Brunswick sawmills from increased tariffs.

For those sawmills exporting to the European Community, a new 12-month derogation for Canada will allow the continued shipment of green coniferous wood into that marketplace. One of the reasons cited for this extension was to allow the industry in Canada time to adjust to new legislation.

5.0 CURRENT TRENDS NEWSPRINT/GROUNDWOOD PAPER GRADES

5.1 Capacity

Between 1990 and 1992, North American newsprint capacity is expected to grow by 8.8%.

5.2 Operating Rates

Operating rates in Canada have been reduced to their lowest levels since 1982-83 due to recent increases in world capacity and a lower U.S. demand for the product. Having operated at 90% of capacity in the first half of 1991, the Canadian newsprint industry fared even worse in the latter half of 1991 and could operate as low as 80% in 1992.

The U.S. consumption of newsprint fell by 9% in 1991 from 1990 primarily due to a fall in newspaper advertising.

5.3 Prices

Newsprint and groundwood grade prices have fallen substantially in the current recession. Newsprint prices are expected to fall to U.S. $450/tonne and remain there until late 1992. This price would force some of the older, less efficient eastern Canadian mills to shut down.

The practice of discounting is very prevalent in the industry with levels of discounting reaching as high as 35%.

5.4 Exports

The U.S. continues to source product domestically, forcing imports to 54% of consumption versus 60% in 1987. Cost and demand for recycled newsprint have influenced this trend which is not expected to reverse.

Because of this decline in imports, Canada had less success in controlling prices to that market. Canadian producers have, however, managed to increase shipments to Europe, Latin America and Asia to compensate for the shortfall in shipments to the U.S.

5.5 Japanese Imports

Japanese imports of newsprint have continued to grow due to a decreasing supply of domestic fibre and a very rapidly growing level of per capita consumption.

5.6 European Imports

The Europeans are becoming more geared to accept recycled fibre. Current levels of recycling in Europe are roughly equivalent to U.S. levels, leaving substantial room for growth. This will consequently reduce imports from Canada.

5.7 Cost

Relative to the American southern and western states, Canadian newsprint mills are generally high cost operations. On average, eastern Canadian mills have lower raw material costs than all of its competitors, except the southern U.S. All areas show a trend to high fibre costs with increasing use of recycled fibre significantly affecting this dynamic.

5.8 Machine Size

Canadian newsprint machines tend to be older and smaller and subsequently suffer from higher labour costs. These machines require more man hours per tonne than newer, larger modern machines.

6.0 CURRENT TRENDS MARKET PULP

6.1 Capacity

Capacity for market pulps has increased in both Canada and the U.S.

6.2 Operating Rates

Operating rates in Canada and the U.S. have fallen sharply in the last two years due to both expansion in capacity and the poor economic climate.

U.S. operating rates have fallen less than Canadian due to the lower cost of production in the U.S.

6.3 Prices

Due to overcapacity in the market and increased penetration into the market by southern U.S. mills, prices have decreased to below the average production cost of eastern Canadian mills. Temporary, short shutdowns had been the norm to adjust to this situation; however, highest cost facilities are now shutting down indefinitely.

6.4 Exports

Exports to the U.S. have declined since last peaking in 1985. Demand from other markets has remained relatively stable.

6.5 Cost

Higher fibre costs in eastern Canada result in somewhat higher pulp costs than principal competitors in the U.S. South.

6.6 Machine Size

The U.S. South operations also benefit from larger and newer machines where machines average 40-50% larger than those in eastern Canada.

7.0 CURRENT TRENDS LIGHTWEIGHT COATED PAPER

Europeans prefer coated paper for magazines and journals and have recently invested substantially in the industry, becoming the world leaders in coated paper capacity.

Operating levels have been reduced due to the substantial growth in coated paper capacity. This level of activity will discourage newsprint and uncoated groundwood producers from upgrading into coated paper. Repap, with its large, new machines should continue to enjoy a competitive edge in this market.

8.0 CONSULTATIVE PROCESS

8.1 Working Committees

To fulfil their mandate, the Ministerial Committee pursued a two-pronged approach to the consultation process:

1) Working committees were established to determine the state of the industry: Forestry Practices; Energy; Labour and Adjustment Measures; Federal Forestry Policy; Environment; Transportation; and Pulp Mills and Saw Mills.

2) Ministerial Consultative meetings were held with the New Brunswick Forest Products Association Inc., the majority of the pulp and paper mills, a cross-section of various sized sawmills, the Canadian Paper Workers Union, the New Brunswick Federation of Woodlot Owners Inc., and the N.B. Sub-Licensees Forestry Alliance.

8.1.1 Forestry Practices

The Sub-Committee dealing with forestry practices has received a number of suggestions in regard to possible action the Government could take to reduce the wood cost to mill operators.

a) Royalties

Stumpage represents approximately 15% of the total delivered wood costs. It is possible to defer payment of royalty on Crown operations. However, because of the sensitivity of this issue vis-a-vis the U.S.A., and competition with private stumpage, we should not consider a reduction of the existing rates.

The Government, however, may want to consider reducing royalty rates for low volume stands, harvesting in deer yards, harvesting on steep slopes and selective harvesting.

b) Access Road Construction

Many roads built by the industry are used by other groups for hunting, fishing, or for other recreational purposes. In Ontario, the government provides financial assistance to the industry for main access road construction.

c) Utilization Standards

Presently any tree or piece of a tree 8' long that has 50% or more sound volume must be utilized. This standard could be amended to reduce the volume of low grade pulpwood.

d) Forest Management Costs

There is a perception that D.N.R.&E. maintains too much "hands-on" control in the annual assessment of licensee's harvest and silviculture activities this is creating some duplication and extra cost to manage a license. The licensees are given a 25-year license and they could be evaluated on their performance on a 5-year basis.

e) Environment and Wildlife Habitat

D.N.R.&E is proposing extra management responsibilities associated with wildlife habitat or environment on Crown licenses. These activities may increase the total wood costs while at the same time reducing the harvest license.

f) Marketing Boards

The Marketing Board subject is very sensitive and at the same time a highly debatable one in the forest industry.

The intent to have private woodlots be the primary source of supply to mills that utilize Crown timber must be interpreted from the point of view that it refers to priority of supply over the life of a Company's Operating Plan (i.e., 5 years) but does not necessarily mean priority on an annual basis. That is, the Minister of Natural Resources and Energy must be satisfied that the industrial wood users have given priority to the identification of private woodlot or producer association

as a source of wood before the Minister will accede to including any Crown wood in the Operating Plan at the time of its approval. The Minister expects the mills to draw from all sources identified in the Operating Plan at the same time with the object being that at the end of the 5-year period the volumes actually used will be proportional to the sources shown.

Marketing Board's view of the world is that industry must purchase the total volume Marketing Boards choose to sell each year before any other source of supply is accessed and regardless of the level of mill production.

This concept is "livable" in periods when the forest industry is operating at full capacity since the total annual allowable cut of private woodlots is required by mills In depressed markets all sources of supply must reduce and raw material costs must be reduced in order for New Brunswick mills to remain competitive.

8.1.2 Energy

Total energy purchased cost for the pulp and paper industry accounts for about 13% of the value of shipments. The range is from a low of 5% for chemical kraft mills to a high of 20% for a newsprint mill.

Purchased energy input for the industry in 1991 is as follows (excluding self-generated waste fuel input).

Purchased Energy Type	Natural Units	Cost ($000,000)	% of Total
Electricity	3,550 Million Kwh	$145	71
Heavy Fuel Oil	2.2 million Barrels	44	21
Steam		6	3
Propane	12 million litres	2	1
Biomass	350,000 bone dry tonnes	8	4
Total		205	100%

This industry is a large consumer of electricity representing some 30 percent of N.B. Power's total in-provincial energy sales. Their overall average rate is some 4.0 ¢/kwh. This, based on a recent cost-of-service study done by N.B. Power, filed with the Public Utilities Board, results in large industry paying 102.5 percent of delivered power cost.

Total energy purchased cost for the sawmill industry accounts for about 3.3% of the value of shipments. This represents a total cost of $9.7 million at an average rate of 6.4¢/Kwh. This industry falls within the small industrial rate class which pays 119.8% of delivered power cost. The demand charge for electricity during shutdown periods of less than four months could add a considerable financial burden to the industry.

N.B. Power's industrial rates are somewhat higher than the rates in other provincial utilities which have substantial indigenous hydraulic or fossil fuel energy resources. On the other hand, N.B. Power's rates are very competitive with those of Ontario and are lower than other utilities in the Atlantic Region and the Northeastern United States.

8.1.3 Labour and Adjustment Measures

The forestry industry is facing a potential job loss of some 3400 employees over the next 1-2 years. The main reason for job loss in this industry is that it is not cost competitive and as a result we are losing market share to our competition. The industry must address this situation on two fronts, the first being wood cost. This includes harvesting, trucking cost and the training of woods workers. Secondly, mill modernization -- for mills to be cost comparative with their competition, a modernization program that will bring our manpower, on a cost per ton basis, in line with the southern U.S. mills must be encouraged.

With respect to the training needs of the industry, the Department of Advanced Education and Labour is being encouraged to do an inventory of forestry workers and from there formulate a training program to assist these woods workers to work more efficiently and safely, reducing costly downtime due to injury.

Worker's Compensation rates have recently been subjected to substantial rate increases. A positive attitude coupled with accident prevention training, immediate investigation and follow-up on accidents, monitoring of patient's condition and in some cases utilization of an incentive program to reward improved or well maintained safety records, has actually resulted in lower overall Worker's Compensation billings for some mills.

For those persons exiting the industry, the Department of Advanced Education and Labour has several programs that can assist the transition to other professions such as:

-Adjustment Services

-Program for Older Worker Adjustment

-Employment Development Programs

-Human Resource Profile

8.1.4 Federal Forestry Policy

This policy states that financial assistance will not be provided by any federal department or agency for new or incremental capacity or modernization using conventional technology in the forest industry.

Consideration as a regional development exception may be possible providing specific principles are observed. National issues and product considerations must also be taken into account.

Existing federal/provincial agreements can be utilized to identify opportunities for industrial development to diversify from the forest industry. In the short term, the Government of Canada and the Province of New Brunswick should proceed immediately to amend the Co-operation Agreement on Diversification by injecting new funds which would give the ability to respond to specific investment opportunities. In the longer term, additional funding initiatives may have to be put in place.

Studies currently under consideration include:

- Port of Belledune Study
- Opportunity Study - Northern New Brunswick
- Opportunities for Further Processing at Atholville Pulp Inc.
- Competitiveness Review of New Brunswick Pulp and Paper Mills
- Competitiveness Review of New Brunswick Sawmill Industry.

8.1.5 Environment

Recently announced federal pulp and paper mill effluent regulations under the Fisheries Act and the Canadian Environmental Protection Act means that N.B. mills will have to spend $150 to $200 million for effluent treatment.

Pulp and paper mills will also be faced with utilizing increased amounts of recycled fibre. This will not be without additional costs to the mills.

For the sawmill industry, long term environmentally acceptable and economic methods of wood waste disposal/utilization must be sought.

8.1.6 Transportation

In New Brunswick, vehicles hauling woodchips are currently allowed an additional 5% tolerance on drive axles. Additional tolerances are also allowed for vehicles transporting raw forest products, i.e., logs and pulp, to a total of 20% on drive axles and 15% on other axles.

The possibility of using rail should be reviewed to determine if there are any economic benefits available.

8.1.7 Pulp Mills and Sawmills

The recession continues to affect the entire forest industry sector. Pulp and paper companies face increasing competition with increased capacity and reduced demand. New Brunswick is a small player in the world market. Falling prices have turned profits into losses. Tougher environmental regulations will require investment when profits are low or non-existent. Regulations regarding use of recycled fibre increases the cost for N.B. mills as they are located long distances from major sources of used paper. Reduced demand is resulting in more frequent and longer shutdowns. Inventories and employment are being cut.

New Brunswick sawmills depend on pulp and paper mills operating and providing a market for their chips, waste wood and bark. The average cost of logs delivered to a mill currently represents 70% of the finished goods selling price (lumber and chips). However, these raw material costs do not fluctuate with the finished goods selling price. Fewer housing starts affect lumber and wood products production. The European lumber market is threatened, but on the positive side, the European demand for secondary products is growing.

8.2 Consultative Meetings

8.2.1 N.B. Forest Products Association Inc. and
N.B. Sub-Licensees Forestry Alliance

A joint presentation by the New Brunswick Forest Products Association Inc. and the N.B. Sub-Licensees Forestry Alliance was made to the Ministerial Committee. The following is a summary of the recommendations put forward by this group:

Immediate Priorities to Improve Cash Flow

- Changes to Marketing Board negotiating process to seek lower wood costs,

- Royalty deferral and reduction if possible, to aid short term cash flows ($18 to $25 million per year revenue to .D.N.R. &E),

- Electricity power cost deferral and reduction of rates if possible to aid short-term cash flow (20% of N.B. Power revenue is from pulp and paper mills),

- Relaxing utilization standards on Crown Land to lower wood costs and reduce the volume of low grade pulpwood.

- Financial assistance for access road construction.

Items Requested for Further Review

- Review of environmental/wildlife habitat management requirements,

- Review of the annual assessment process of licensee's harvest and silviculture activities,

- Relaxing and/or use of common sense in enforcing highway weight regulations,

- Support for negotiations of labour union contracts regarding flexibility and cross trading so that mills can reduce their man-hours per tonne output.

8.2.2 Sawmills

The consultation process has allowed the Ministerial Committee to have private meetings with sawmill operators from different regions of the Province and with a variety of sawmilling capacities.

The sawmill industry is directly affected by the slowdown in the pulp and paper industry for the reason that they do not have a market for their wood chips when the pulp mills are not in operation. Furthermore, the demand for lumber is down because of the low housing starts in Canada and the U.S.A.

The following are the points of concern by the sawmill industry:

(a) High Cost of Logs

The high cost of logs are due to many reasons, some of which can be addressed by government; others will have to be addressed by other stakeholders.

1. Some of the rules and regulations imposed by government to harvest crown lands are excessive and costly. They should be reviewed in an attempt to streamline the process.

2. Wildlife habitat and environmental requirements are imposed without any cost analysis study. They are depriving the operators of potential resources needed by the industry. A review of these practices should be done.

3. Log production by marketing boards is limited primarily because marketing boards have been successful in negotiating comparatively higher prices for pulpwood, particularly when industry demand for pulpwood is high. This leaves little incentive for the private woodlots to produce sawlogs. The government should encourage the private woodlots to produce more sawlogs which should add value to our resources.

4. Government should revise the Marketing Board Legislation to protect the small woodlot owners and not the contractors or truckers. The sawmill operators claim that most of the wood produced under the Marketing Boards is cut and transported by

wood contractors. They suggest that all wood produced by such contractors should not be protected by Marketing Board legislation. The existing situation keeps the price of wood artificially high.

(b) Sale of Chips

When the demand for pulp and paper and newsprint etc. decreases, the large available supply of pulpwood tends to depress the available market for wood chips.

(c) Trucking

The industry feels harassed by the way weight restriction rules are enforced. Because of the nature of the product, the weight is not consistent and they want to have access to the Government scale to legalize their load.

(d) Electrical Power Costs

The sawmill industry stated that electrical power rates were relatively higher compared to other industry users. It was suggested that N.B. Power roll back the power rates to better reflect the real cost to the industry.

It was also stated by the sawmill industry that the current policy of N.B. Power in relation to a four (4) months' contract on demand charge is considered excessive.

(e) European Community

The Canadian sawmill product entering the European market after 1992 may have to be kiln dried because of the pinewood nematode. This will have a negative effect on our sawmills, because they will compete against green lumber from other countries. Help will be needed to either find new markets or access dry kilns.

8.2.3 Canadian Paper Workers Union CLC

The Canadian Paper Workers Union supports the idea of all parties; government, companies, and unions meeting and discussing what can be done to aid companies through current difficult times. The CPU however, oppose opening collective agreements for wage or benefit reductions. Contracts were not re-opened during the years that companies were making huge profits, so why re-open them now is their attitude.

The CPU cites a number of reasons for the current situation in the pulp and paper industry:

- high inventory levels due to lower demand and new mills in southern U.S.,

- failure of mills to reinvest past profits in modernizing their N.B. mills,

- accounting practices and methods are questionable and appear to change to suit company needs,

- salaries and benefits of senior company executives appears excessive,

- interest rates are too high,

- rather than purchasing other mills, companies should have modernized their own mills,

- discounting practices are totally unrealistic and self defeating,

The CPU maintains that even though companies are losing money, they are paying dividends to their shareholders. They also believe that government should control the policy of reinvestment of company profits.

They support government's providing training programs and believe that any grants to industry should be converted to shares in the company.

Where feasible, the CPU believes that delays on pollution control and regulation should be extended. Paper companies should be given a preferential rate on electricity and should be allowed to use the N.B. Power system to transport electricity produced at some of the NB mills. This would only be done if it did not affect the cost of electricity for the citizens of New Brunswick.

In conclusion the CPU is not interested in wage cuts or loss of benefits. Their contribution will be in job or wage losses, either when a mill reduces employment or when a mill takes a shut-down. The CPU is emphatic that the current problem is oversupply and is not a problem created by unionized workers.

8.2.4 New Brunswick Federation of Woodlot Owners Inc.

The New Brunswick Federation of Woodlot Owners Inc. claims to represent 38,000 private woodlot owners who own approximately one-third of NB forest land. The group appears quite frustrated that industry is trying to make them out as the problem. In fact they feel that industry wants to put them out of business. They expect some form of immediate help.

In 1990, marketing boards supplied 42% of the industrial roundwood delivered to pulp mills and 15% of industrial roundwood delivered to saw mills for an overall average of 29%. Deliveries from Crown land to pulp mills represented 47% of total deliveries while to the saw mills it represented 50%. Total value of product through marketing boards was $110 million in 1990-1991.

The woodlot owners' current views on the present situation in the pulp and paper industry are:

- Woodlot wood cost represents from 2% to 15% of total costs depending upon mill,
- The annual wood price increases have been comparable to industry annual incremental profits,
- Mill productivity in Eastern Canada though increasing is still less than other areas, and
- they believe that world consumption for paper and paper board has exceeded every expectation.

The Federation feels that the pain should be shared by all, including the giving up of bonuses, by senior industry management. Suggested alternatives specific to the Federation include:

- unilateral price reduction
- long term price index
- further reduction of volumes
- increased saw log production

It was felt that all of the four items above would result in a decrease in income for their members. The Federation feels that a fair policy should ensure that Crown wood does not compete with woodlot wood. By this they mean that the government should not impose reductions in volume on woodlot owners. It should also ensure that the bargaining process include volumes and that during an arbitration process all parties enjoy business as usual which in their case means reasonable deliveries.

9.0 CONCLUSIONS

As a result of the consultations with the various stakeholders, the following conclusions were reached:

1. The Province on its own cannot save the industry. The cooperation of all stakeholders will be required to weather the recession and forge ahead.

2. The industry suffers from world market conditions over which it has no control,

3. The high Canadian dollar has an impact on our competitiveness and for every one cent downward in foreign exchange this represents an additional revenue of $9 million to our industry. Since 1988 the Canadian dollar has appreciated by close to seven cents, this translates to $56 million in reduction in income to New Brunswick forest companies.

4. New Brunswick mills have relatively high production costs compared to their competition.

5. Some mills still produce products for which demand and price are highly cyclical.

6. Due to the current low level of price the continuance of inefficient capacity will be subject to shutdown, however this may represent an opportunity in repositioning the effective mills to a higher value niche market.

7. The high pulpwood prices (relative to sawlogs) negotiated (or in some cases awarded by arbitration) between the marketing boards and the pulp companies during periods of good markets has encouraged the production of high volumes of pulpwood at the expense of sawlog production.

8. The management of New Brunswick's forest lands are the best in Canada. This was reinforced by a recent article in MacLean's magazine which cited that New Brunswick had the best managed forest in Canada. This should provide a good basis on which to build a dynamic industries.

10.0 RECOMMENDATIONS

1. The Province provide short term relief in a business-like manner, where appropriate, on a case-by-case basis, to aid industry through the current crisis by authorizing the respective Ministers to consider a variety of mechanisms such as temporary royalty deferral, power billing deferral, loan guarantees, and other existing programs. The participation of the Province of New Brunswick will be on a partnership basis involving all major stakeholders, including employers, workers, supply organizations and other participants.

2. D.N.R.&E. should proceed as soon as possible with revising the current policy affecting the industries' negotiation with marketing boards.

3. D.N.R.&E should consider establishing regulations to encourage overall log production on private woodlots to the same standards as followed on crown land.

4. D.N.R.&E. should review its practices in regard to wood utilization standards and monitoring of silviculture activities.

5. D.N.R.&E. review the current regulations and terms of payment of royalties.

6. Advanced Education and Labour in concert with Economic Development and Tourism complete a human resource profile for the pulp and paper and sawmill industries.

7. Advanced Education and Labour should do its utmost to provide adjustment process services to employees and employers affected by shutdowns and restructuring in the forestry sector.

8. Advanced Education and Labour first define categories of woods workers; second, define who currently is in these categories; and thirdly, implement appropriate training and safety programmes to enhance the standards in the profession.

9. N.B. Power should consider additional co-generation and/or hog fuel generation as an alternative to building new generating capacity when the need for additional capacity is identified.

10. N.B. Power should consider revising the contractual time small industry is required to pay the demand charges while they shut down operations.

11. That D.O.T. review the fine structure currently imposed on forest product carriers and establish a pilot project for the months of January and February 1992 such that fines are applicable to overweight amount beyond tolerance not overweight amount over the legal axle weight.

12. Due to the present financial position of the industry, the Province should encourage the Federal Government to financially assist the industry implementing the new environmental regulations affecting the pulp and paper industry.

13. As the world is becoming more environmentally conscious, the Province should promote the fact that its forest management practices are the best in Canada. The Province will financially contribute towards a jointly funded promotional campaign directed at the European market.

14. The Province should establish an Environmental Working Group with members from Economic Development and Tourism, Natural Resources and Energy, Environment Canada and N.B. Environment to review environmental issues and identify costs and cash flow associated with mills' attempt to comply with regulations.